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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000359

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: SHELL'S OIL SECTOR OUTLOOK: WAIT AND SEE

REF: A. CARACAS 157

- [1](#)B. CARACAS 83
- [1](#)C. CARACAS 302
- [1](#)D. CARACAS 321

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: Shell has been monitoring the strategic association migration negotiations closely and will base future investment decisions on their outcomes. It believes the strategic association partners' decision not to engage the BRV and offer opening negotiating positions was a grave error. ExxonMobil and ConocoPhillips have taken hard lines in their negotiations. Both Shell and Chevron believe the EDC and CANTV deals are positive developments. Chevron believes the deals have created a high appetite for liquidation among oil companies. Shell is still awaiting payment from its joint venture. Shell joint venture secondees are requesting reassignment. END SUMMARY

WAITING WITH BATED BREATH

[1](#)2. (C) Petroleum Attache (Petatt) met with Shell Venezuela President Sean Rooney (strictly protect throughout) on February 16 to discuss recent events in Venezuela. Rooney stated he is closely following the strategic association negotiations (Reftel A) since their outcomes will have a significant effect on Shell's future investment decisions in Venezuela. He said Shell management is considering a major extra heavy crude oil project in the Faja. Rooney said he would be unable to convince Shell management to invest in a Faja project if several of the companies ended up in arbitration with the BRV. However, later in the conversation, he indicated that a voluntary departure by some of the oil companies would not have a negative impact on Shell's investment plans if the companies received reasonable

compensation for their assets. (NOTE: The four strategic associations are: Sincor (Total 47%, PDVSA 38%, and Statoil 15%), Petrozuata (ConocoPhillips 50.1%, PDVSA 49.9%), Hamaca (ConocoPhillips 40%, PDVSA 30%, Chevron 30%), and Cerro Negro (ExxonMobil 41.67%, PDVSA 41.67%, and BP 16.67%). END NOTE.)

13. (C) Rooney opined that the strategic association partners committed a grave mistake when they refused to approach the BRV with preliminary negotiating positions. He stated it was clear that the BRV and PDVSA were incapable of presenting opening positions and that the companies should have taken advantage of this. For instance, the oil companies could have garnered BRV goodwill by offering to use their close ties to commercial and investment banks in order to help the BRV renegotiate the associations' financing arrangements as part of the migration process. As a result of the companies' failure to act, the migration negotiations never progressed. When President Chavez asked senior BRV officials why agreements had not been reached by the December 31 deadline, they naturally blamed the oil companies. This resulted in President Chavez imposing a May 31 deadline for the completion of the migration of the four associations to PDVSA controlled joint ventures as well as BRV statements that it would nationalize the associations (Reftel B). Rooney says he has no doubt that the BRV is serious about the May 1 deadline.

14. (C) According to Rooney, ExxonMobil and ConocoPhillips have taken the hardest lines with the BRV. He then added that BP Venezuela President Joe Perez (strictly protect) recently told him that ExxonMobil has complete control of Cerro Negro operations and an abrupt departure on their part would be an operational disaster. Rooney opined that Shell

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could take over Cerro Negro operations if there was a proper handover. However, it would not have any interest in doing so if ExxonMobil ended up in arbitration with the BRV and PDVSA. He indicated that BP had the technical capacity to take over operations but was not sure if they would be interested in doing so. He stated he did not believe that Petrobras or PDVSA had the capacity to operate Cerro Negro.

15. (C) Rooney stated he believes the recent CANTV and EDC deals (Reftels C & D) were "positive developments" that would reduce tensions in the strategic association negotiations. He added that he is preparing a document for Shell management that shows that the BRV is willing to compensate companies for investments that it has nationalized. It appears that Rooney's view is held by other companies as well. Chevron Latin America President Ali Moshiri told Petatt on February 15 that he told Energy Minister Ramirez that the EDC and CANTV deals had created a situation where the oil companies had a "high appetite for liquidation". Moshiri said both AES and Verizon had received much better deals than he originally thought they would. Moshiri claimed he told Ramirez that the BRV's actions in both cases had opened the door for liquidation and that Chevron expected a fair deal for the oil sector along the same lines. Moshiri believed a significant number of the six oil companies would accept a BRV offer for their interests if they could get a fair market price.

JOINT VENTURES

16. (C) When asked about Shell's joint venture with PDVSA in the former operating service agreement fields, Rooney stated that he has received operational and production information on a daily basis. He said PDVSA has allowed Shell to maintain operational control but that it has been testing Shell recently. According to Rooney, PDVSA has tried to bypass Shell technical personnel in the last few weeks. He admitted that it still was not clear if PDVSA would allow Shell to maintain operational control.

17. (C) Rooney stated employee morale in the joint venture is still an issue. Shell employees are not treated with respect. He said there were three groups of Shell employees in the joint venture: those who migrated to the joint venture and are joint venture employees, Shell employees who refused to migrate, and Shell employees that were seconded to the joint venture. Shell is trying to find positions within the group for employees that refused to migrate. Rooney said that seconded employees have recently begun to insist that Shell transfer them out of Venezuela. The seconded employees frequently state that Venezuela is becoming like Cuba. The employees fear that the BRV is going to enact laws that will forbid them from leaving the country within the next two years and want to depart while they still can.

18. (C) Rooney said that Shell's biggest problem is its failure to receive payment as a joint venture partner. He stated PDVSA is marketing the joint venture's production but that it has failed to pay Shell its share. The joint venture itself is an independent entity and Shell is not providing it with capex or opex. According to Rooney, the joint venture has been breaking even.

COMMENT

19. (C) Rooney, who has spent more than two years in Venezuela, is no babe in the woods. He clearly understands the current trends in Venezuela and expects Chavez' economic

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policies to bring nothing but ruin. He stated he was seated next to the new French ambassador's wife at a recent dinner and listened to her try and find positive notes in the BRV's social programs. After listening for some time, Rooney told her that he thought the same way two years ago and looked forward to speaking to her after she had been in Venezuela two years. Rooney then humorously related his wife's reaction after spending hours trying to find sugar in the grocery stores without success. We find it somewhat ironic that Rooney, despite his negative views on BRV policy, is still actively competing for Shell investment funds for a major extra heavy crude oil project in the Faja.

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